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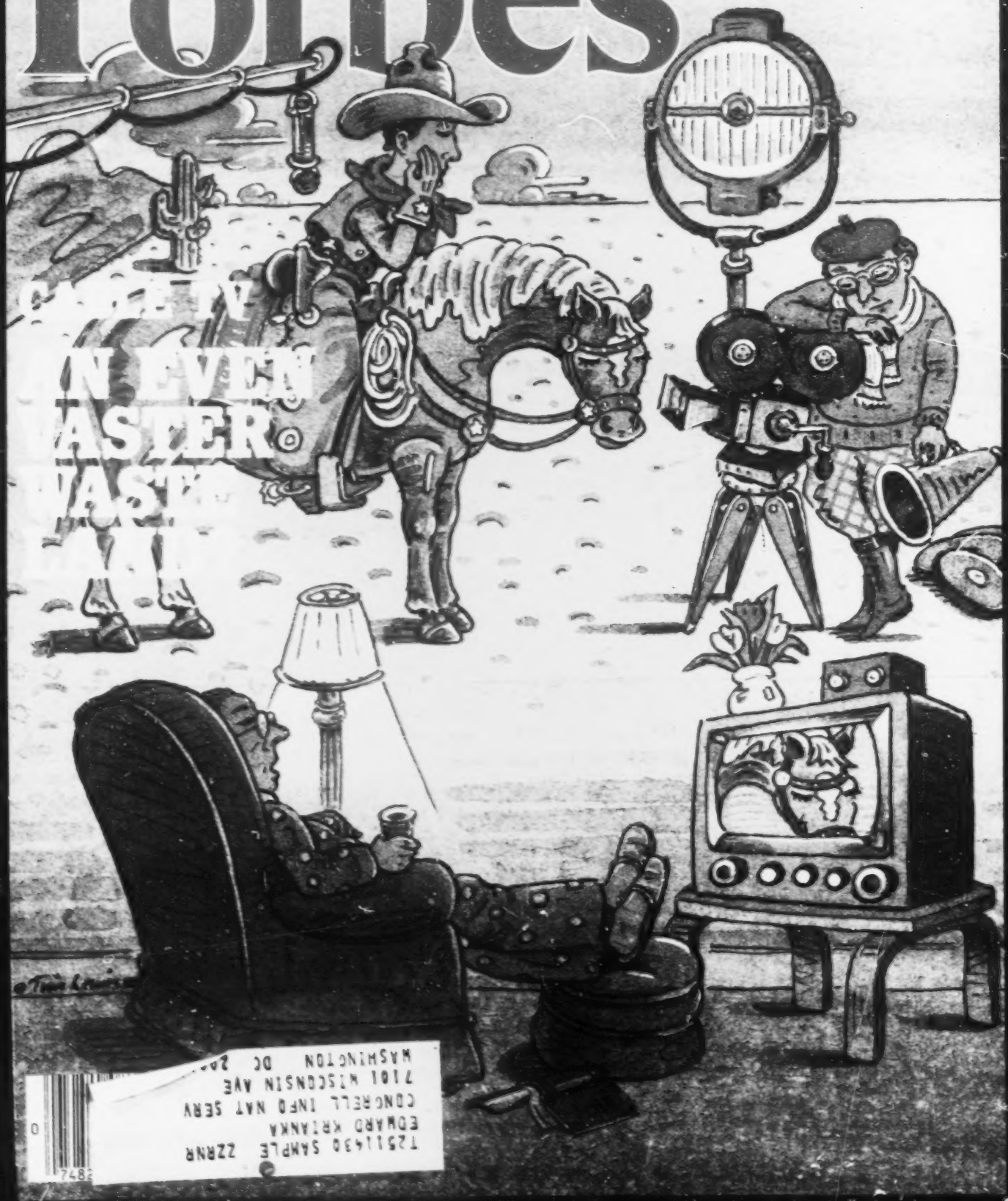

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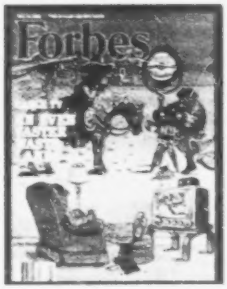

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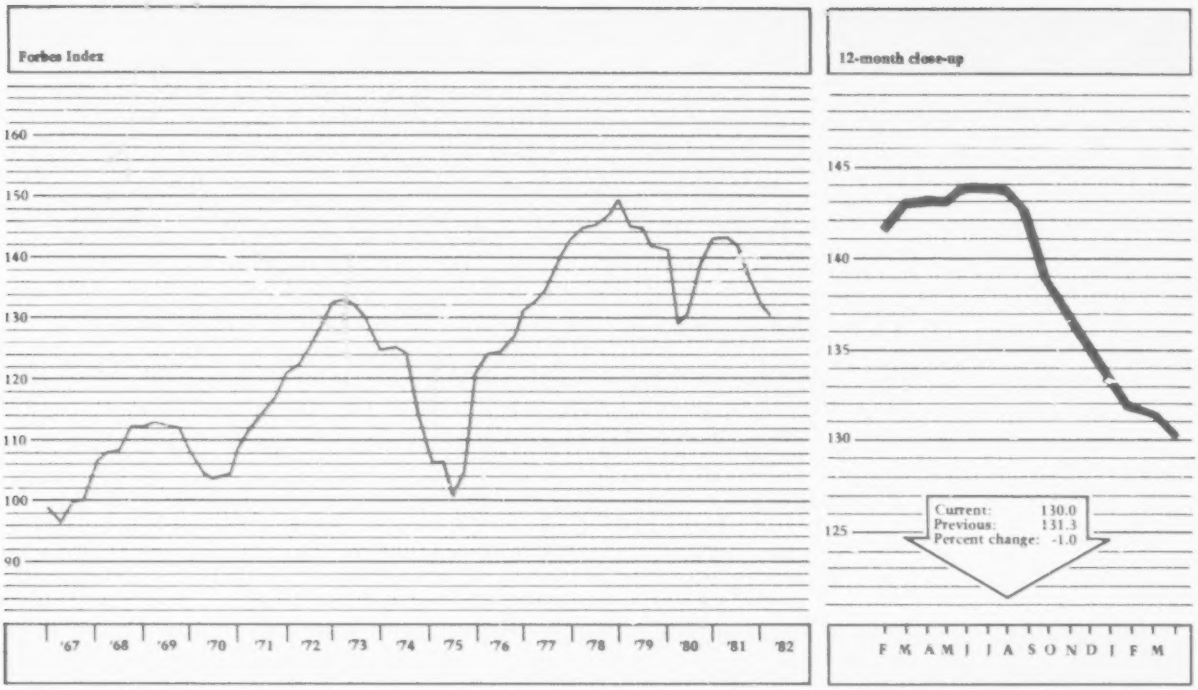
The Forbes Index



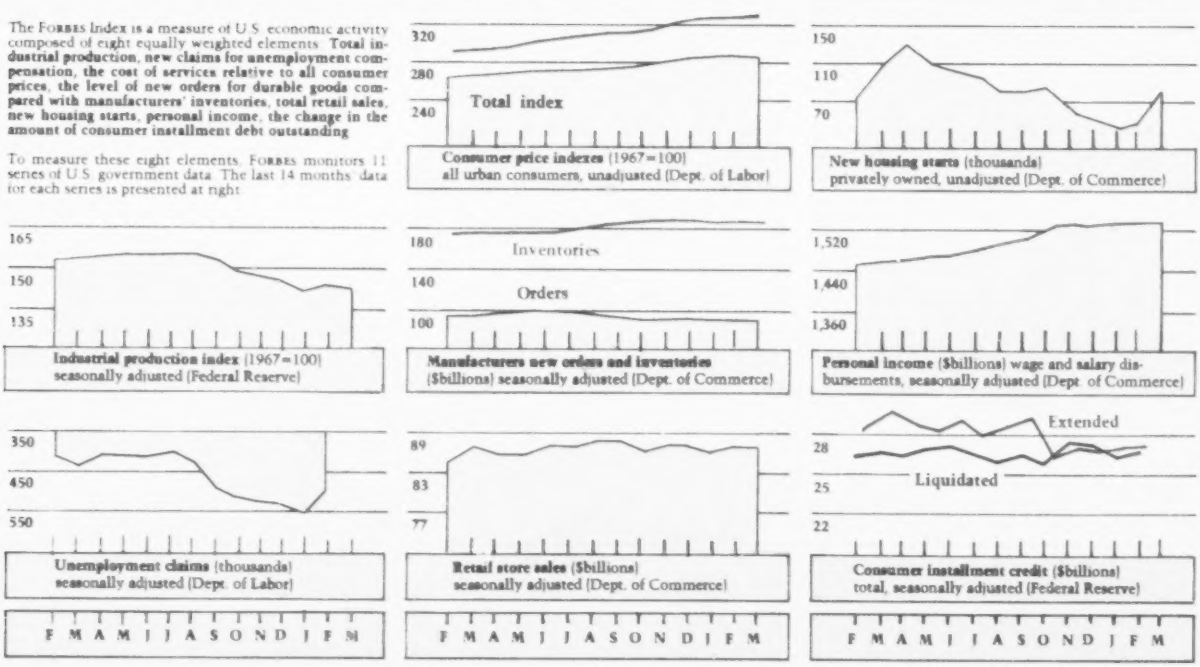
Holding its own. The Forbes Index is still in the negative column, but once again several indicators are signaling that an uptick in the economy may not be far away. New housing starts, for example, vaulted ahead 55.9% in March and are up 68.4% from the alltime low set in January. Less spectacular are the gains in manufacturers' new orders, which rose by 0.4%, and personal income, which inched ahead 0.1%. A positive note is the small 0.3% decline in inventories, which may indicate that the recession has already bottomed.

Good news on the inflation front: The current Consumer Price Index is down by 0.1%, the first decline in 17 years. Interest rates, however, remain uncomfortably high. Until they come down, the economy will not get into high gear.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. **Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.**

To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



Everybody's rushing to get into cable TV programming. Like all gold rushes, this one's going to leave skulls bleaching in the desert.

A vaster wasteland?

By Thomas O'Donnell and Jay Gissen

YOU HAVE HEARD IT a hundred times: As the so-called home video revolution picks up steam, you will use your television set for everything from voting in presidential elections to opening your garage door. Your kids will do their homework on it, your wife will order her groceries without leaving the house. On a Sunday in January, you will sit back and watch the Superbowl—commercial-free.

Don't hold your breath. That happy vision of the future is a long way off. But now that cable TV franchises have been awarded in many big cities—lately at sky-high prices—there is a gold rush to develop programming to put over those wires. And, sure, cable will fulfill its promise someday. But not much gold will be mined until some pioneers get burned.

Everybody looks at Time Inc.'s Home Box Office, which earned an estimated $65 million pretax on revenues of $310 million last year. Or they point to Ted Turner's Atlanta-based Superstation, which earned $18 million in 1981 mainly by showing movies, sports and syndicated sitcoms. These are "programmers," outfits that make money producing what you see for the owners of cable hardware. The thinking is that more such networks could easily be set up because cable's appetite for programming is enormous.

Such thinking is seductive but, right now, not all that sound. At present it isn't the programmers calling the shots but the cable operators—the owners of the hardware. They determine what goes out to subscribers. As competition among the programmers gets hotter—some 30 programming networks are on the wire and 35 are planned—the operators will be driving ever harder bargains.

The programming networks are of two types: The majority are the so-called basics like Turner's Superstation, which are supported by ads and offered free to viewers who take cable. The others, pay TV channels, charge viewers an additional monthly fee of about $10 and mainly show movies. Pay channels are what everybody wants because their potential as money machines is far greater. HBO is only the best example. Recently, Showtime, owned by Westinghouse and Viacom, broke into the black. Others—such as Warner Amex' The Movie Channel, Westinghouse's Home Theater Network and the newly created Spotlight, owned by five cable companies—can be expected to cut into HBO's huge lead.

The ad-supported networks are, in contrast, facing a shakeout, but the major ones should come out of it whole. They include Turner's around-the-clock Cable News Network (CNN) and his Superstation WTBS; Entertainment and Sports Programming Network (ESPN); the USA Network; and "superstation" WGN/Chicago. Among some 20 such networks, only Turner's Superstation is making big bucks.

Chances for the newer programming networks' getting their material on cable systems are only partially bettered by the 50- and 100-channel hookups now being built. The unpleasant fact remains that about half the nation's systems have no more than 12 channels and won't easily be upgraded. (According to consultant Paul Kagan, it will cost cable operators, as distinct from programmers, $5 billion to modernize these 12-channel systems over the next ten years. *see story, p. 119.*) For now,

There's bad news for those who have high hopes for "narrowcasting," material aimed at small audiences interested in specific programs and, therefore, prime audiences for specific products—fitness, business, cooking, you name it. As 50- and 100-channel systems come into being, narrowcasting could become slivercasting. A shrinking audience will limit advertiser interest.

once you take away commercial channels and local programming, the average system has about 5 channel slots for the 20 ad-supported companies. Pay TV networks, in contrast, have far less trouble getting on since they split revenues with operators.

That's the bad news. The good news is that only 28% of U.S. homes are now hooked up. In some big cities, where signals are clear and TV stations are plentiful, the figure is less than 10%. That means, as any programming executive will be happy to tell you, advertising has room to grow. Last year cable ad revenues topped $100 million and should more than double this year, to exceed $250 million. But that's small potatoes compared with the almost $13 billion hauled in by broadcasters.

As a result, many programmers are predicting an advertising boom with a line of big-budget advertisers beating down the doors to get in. The question is when. The answer often given is when 30%—a magic number—of U.S. homes are hooked up. Since some 300,000 homes sign up every month, that will be easily exceeded by year-end. The 30% figure, however, has been plucked out of the sky like a satellite signal. Nonetheless, big companies are testing the waters. Bristol-Myers, for example, is funding a couple of beauty programs. Anheuser-Busch is buying time on ESPN to sell beer. And some advertising agencies are advising clients to devote 5% of their ad budgets to cable.

But how many big-spending advertisers—in addition to how soon—is another question. It could be that cable will grow another way, the way radio has grown since TV came along—as a local medium serving local advertisers.

Another problem in attracting advertisers is that there is no generally accepted way to measure how many people are watching a given cable channel. Cable programmers will tell you that the quantity of viewers does not really matter. It's better, they say, to have several thousand self-selected viewers interested in the product, rather than several million who are not. At this point not many big advertisers are willing to follow that argument. "The advertisers want eyeballs," says Lloyd Werner, head of sales for Westinghouse Group W Satellite.

That's bad news for those who have high hopes for "narrowcasting," material aimed at small audiences interested in specific programs and, therefore, prime audiences for specific products—fitness, business, cooking, you name it. As 50- and 100-channel systems come into being, narrowcasting could become slivercasting. A shrinking audience will limit advertiser interest.

Thus, to survive the shakeout, programmers will generally be forced to go after the largest possible audiences to support themselves. The inevitable result: the same sort of stuff you are getting now from commercial television. "Do you want to know what tomorrow's cable programming will be like?" asks Ted Turner. "Then turn on your TV set now. They're one and the same." The vast wasteland will be divided up, but it will remain a wasteland.

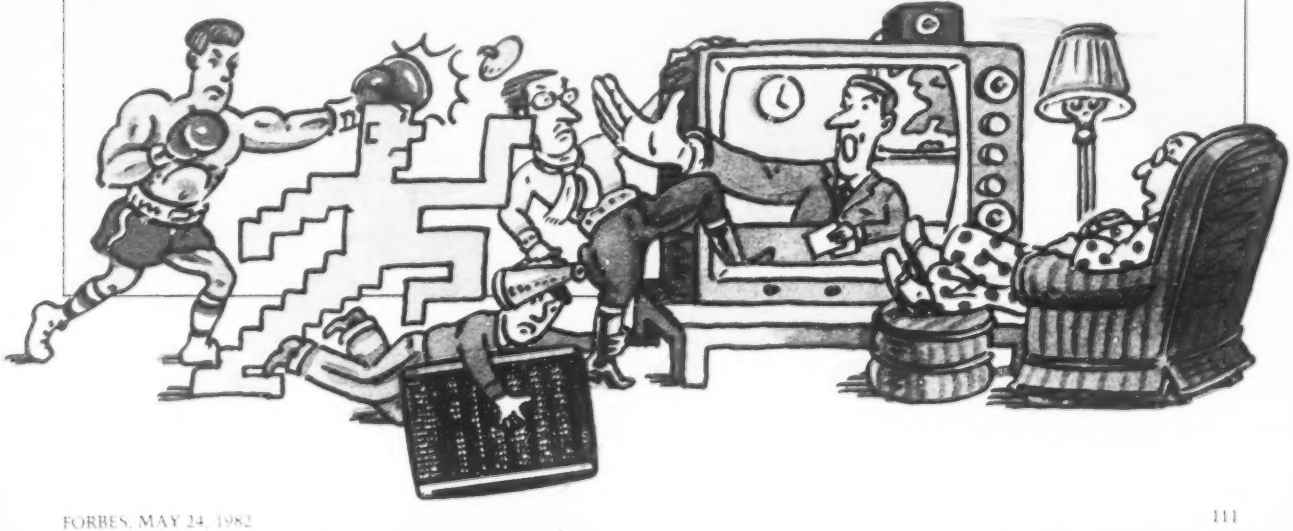
So what's Turner's answer? He's emphasizing news and developing original programming in Atlanta. He is using profits from his Superstation to subsidize his Cable News Network. CNN, which is still in the red even though it is carried by 2,200 systems with 12 million subscribers, is going to get competition from another outfit that believes in news. On June 21 Westinghouse Broadcasting and ABC will jointly launch an all-news network with an estimated $150 million in financing.

Why news? "The potential revenues to be made are bigger and the costs are smaller," explains Westinghouse Broadcasting Chairman Dan Ritchie. Prestige-conscious

The cable stable

These 26 cable programming services are a sample of what's now on the market. Half show mainly movies. One-third offer some sports. Few, however, are profitable. Though most reach several million homes, none can measure with certainty just how many viewers have actually tuned in. Still, the dial is getting more crowded all the time: An ABC/Westinghouse all-news channel debuts in June.

Service	Owners	Cable affiliates	Subscribers (thousands)	Programming description
ARTS	ABC	1,500	7,000	culture
Black Entertainment	Black Entertainment	850	9,200	films, sports, variety
Bravo	Cablevision	26	48	culture, foreign films
Cable News Network	Turner Broadcasting	2,200	12,000	news
CBS Cable	CBS	350	4,000	culture
CBN Satellite Network	Christian Broadcast Network	3,000	15,000	religious variety
Cinemax	Time Inc	900	1,500	classic and foreign films
Escapade	Cablevision	115	206	adult films, variety
ESPN	Getty Oil	3,545	15,500	sports
Gala Vision	SIN, Inc	135	100	Spanish films, variety, sports
Home Box Office	Time Inc	3,600	9,000	recent films, variety, sports
Home Theater Network	Westinghouse	250	155	recent and classic films
Modern Satellite Network	Modern Talking Picture Service	310	4,100	women's variety
The Movie Channel	Warner-Amex	2,150	2,200	recent films
MTV	Warner-Amex	600	4,000	rock videos in stereo
Nickelodeon	Warner-Amex	1,725	7,700	youth-oriented variety
Satellite News Channel 1	Westinghouse, ABC	NA	2,000	news
Satellite Program Network	Satellite Program Network	471	4,400	films, variety
Showtime	Westinghouse, Viacom	1,500	3,000	films, culture, variety
SIN Television Network	SIN, Inc	184	2,700	Spanish variety, news, sports
Sportschannel	Cablevision	16	205	sports
Spotlight	Cox, Times Mirror, Cablevision, Storer, TCI	70	300	films
USA Network	Time Inc, MCA, Paramount	1,750	10,000	sports, variety
The Weather Channel	Landmark Communications	114	3,000	weather
WGN/Chicago	The Tribune Co	2,550	7,100	films, sports, variety
WTBS Superstation	Turner Broadcasting	4,097	20,400	films, sports, variety



advertisers want to be associated with the news, which attracts an intelligent, well-heeled audience. That means higher fees for commercial time. And with 24-hour news you need no guest stars or exotic sets. Doing it on the cheap, you need a minicamera (filled with reusable tape), a wire-service ticker and a few talking heads.

Turner and Ritchie are going beyond that and developing first-class news operations because they are convinced that cable could someday replace the networks as the primary news source of most Americans. Maybe, but it will be a long wait. The first homes hooked up were the easy pickings, situated where broadcast signals are faint or don't reach at all. From now on, people will be asked to hook up where signals are clear and channels plentiful. Says Ritchie: "Fortunately, we have the resources to be able to take the long-term view." This year alone Westinghouse is sinking $300 million into cable operations.

Westinghouse is bringing so much money to the table that it is changing the very economics of cable. To get on system, it is offering cable operators a flat fee of 75 cents plus 10 cents a year per subscriber for carrying its news. A system like that of the Times Mirror, for example, with almost 800,000 homes on by year-end, would get a flat fee of $600,000 plus at least $80,000 a year—just for saying yes. (Turner, in contrast, requires operators to pay him 20 cents a month per subscriber for his news.)

To combat Westinghouse, Turner has started a second all-day news service, CNN 2, which, like Westinghouse/ABC, features summaries rather than long stories. It is offered free to cable operators who have Turner's basic service. So Turner's ink will run even redder, but don't count him out. If news losses get too high, he will almost certainly be able to strike a deal with NBC, CBS, Warner Amex or another cash-rich cable company. Even now, Turner is planning a third news network offering 24-hour talk and a fourth to run business news all day.

News has the best chance of attracting solid advertising. Other programmers are hoping they can someday charge for what they now give away. Take ESPN, which lost a bundle for parent Getty Oil last year by running sports 24 hours a day, even though it may have hauled in more revenue than any other ad-supported network. ESPN President Chet Simmons says it right out: "Pay TV is what we want."

But ESPN will have a hard time getting it. Outbid by the three free over-the-air networks for rights to many front-page sports events, ESPN has been building an audience by offering topflight boxing, Canadian football, pro soccer and sports roundups. Unfortunately, there is not enough such stuff to fill 24 hours every day. So ESPN has also run college swimming, wrestling, rodeos and volleyball. Not exactly surefire audience builders. And recently, because of the big money being paid by others to get on the wire, ESPN has had to pay operators a yearly fee of 10 cents per home. So, losses this year could stay high.

For owners of professional sports franchises, however, pay TV could be a gold mine. Former TV producer and now Chicago White Sox owner Eddie Einhorn has just set up an over-the-air pay channel that will present games of the Sox and three other Chicago professional teams for $22 per month. Following Einhorn's lead are New York's Islanders and Mets, which have both just signed 30-year pacts with Sportschannel to carry their games on pay TV.

When will you see the World Series or Superbowl on pay TV? Again, don't hold your breath. The NFL has signed a five-year, $2 billion contract with the commercial networks. So the Superbowl won't be on pay TV until 1988 at the earliest. Even then, there's a roadblock. "Congress

Unlike pay TV services, which charge monthly fees, pay-per-view channels charge one-time fees for spectaculars such as a title fight or a Rolling Stones concert. But pay-per-view has one problem as a business proposition: lack of big events. The talk you hear about big movies bypassing theaters and going directly to TV will remain mostly talk until pay-per-view becomes widespread. But think of it: 1 million homes paying $10 apiece to see a film. That's a cool $10 million right off the bat.

could pass a law to keep such big-time sporting events free," predicts Michael Fuchs, HBO's vice president for programming. Political opposition to pay TV may fall, of course, when cable does reach a majority of homes.

For now, cable sports will get network leftovers. ESPN, for example, signed a pact in September with ABC Sports to cover events that ABC owns but does not want to broadcast. CBS has a similar deal with USA Network.

Because it offers a mixed bag of programming, the USA Network is increasingly likely to attract advertisers. It also best illustrates the future of cable programming: not all that much different from free TV. Sports—but front-page stuff and only at night and on weekends, when men are watching. Women's and children's programs during the day. And cultural programs also on weekends.

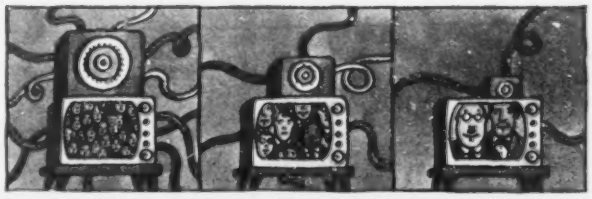
Surprisingly, some of the most culture-conscious and original cable programming is coming from the commercial networks, which until recently had little interest in cable. Regulations have prevented them from buying cable operators, but CBS and ABC (with the Hearst Corp.) have both begun programming "quality stuff" for cable. In addition, NBC's parent, RCA Corp., and Rockefeller Center Cable are presenting BBC products over cable. Here again a shakeout is likely. "One such pay channel, charging premium rates, could become very successful," says Alvin Perlmutter, a highly regarded independent TV producer, "but it's hard to believe Americans will support three cultural channels."

No one is more interested in pay TV than Westinghouse. This year, in conjunction with Disney, it will launch a pay channel offering family fare. The startup cost? An estimated $125 million. It also started a pay movie channel—Home Theater Network—and a pay country-music channel. Westinghouse is also an operator, having paid $646 million for Teleprompter, which has been renamed Group W Cable and runs 130 systems. You have to hand it to pioneers like Turner and Ritchie. Many executives concentrate on quarterly earnings. These two are looking to the long term and backing their beliefs with big dollars.

Notably absent from the list of players are those companies most associated in the public's mind with cable—moviemakers. Rather than gambling on cable, they are cutting costs. But hopes are running high. Think of all those wires out there, eager for something to broadcast. What better answer than old movies, even those played and replayed on regular TV? A great old movie goes on forever. But Hollywood, fearing the unknown, has by and large stayed away from investing in the new technology. The reasoning is that the technology is so advanced, yet has so little present use, it just doesn't make good business sense to predict how it will be applied.

Among the movie folks most excited about cable, so far, are makers of adult films. In Columbus, for example, Qube, the much ballyhooed two-way cable system owned by Warner Amex, has a pay-per-view adult fare channel that is a big hit. There already are several adult-film networks throughout the country. The most successful, Escapade—which among other things is putting a video version of *Playboy* on cable—has attracted more than 200,000 subscribers on 115 systems. Another network is Private Screenings, which is soon to go public and recently caused a stir on Wall Street when it showed securities analysts a sample of its assets. In its portfolio are such gems as *Six Swedes at a Pump* and *There's No Sex Like Snow Sex*. The outlook for such programmers would be more exciting except for political opposition to sex on the airwaves.

Dirty movies—is that where all this technological dazzle is headed? Not at all. The promise of cable to link high quality and solid economics remains, nowhere more evident than in Qube itself. Qube's "interactive" feature offers pay-per-view. Unlike pay services like HBO, which charge monthly fees, pay-per-view channels charge one-time fees for spectaculars such as a title fight or a Rolling Stones concert. But pay-per-view has one problem as a business proposition: lack of big events.



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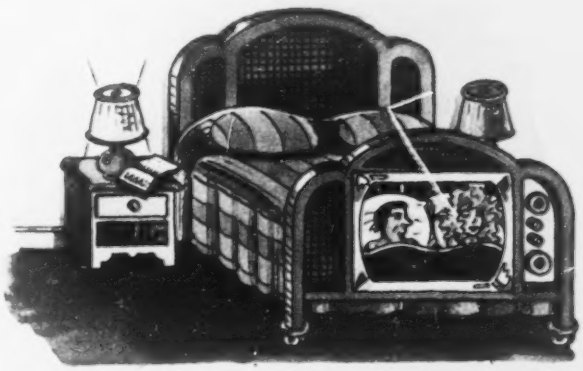
In Columbus, Qube has 38,000 homes hooked up for pay-per-view. If you live in one of them and watch one of the seven pay-per-view channels for more than two minutes, you get a bill. In addition to the highly popular adult fare, Qube runs films that have yet to hit the subscription services, concerts, specials and sports. Warner Amex is building Qube with its pay-per-view capabilities in such big markets as Chicago, Houston and Pittsburgh.

That's the future. So far Qube's main accomplishment has been to help nail down franchises for Warner Amex by wowing municipalities with its bells and whistles. In 1980, for example, Warner Amex got the right to wire 1.1 million of all 1.6 million homes up for bid.

While pay-per-view gets its act together, the monthly service outfits are pulling in money. In addition to its HBO operation, Time Inc. launched a second pay channel in late 1980, Cinemax, that offers mostly foreign and classic films. It also increased HBO's air time to 24 hours a day. And it's boosting this year's HBO advertising budget from $10 million to $18 million. "We've got to move away from movies alone," says HBO's Fuchs, who is developing comedy and music specials, Broadway plays, big-ticket sporting events and original programming. He may also have to protect HBO's flanks against a new competitor, ABC, which last month announced an over-the-air service to provide movies by cassette for a monthly fee.

Time Inc. is also putting printed matter on TV screens. This fall, through cable subsidiaries in San Diego and Orlando, it will test a process called videotext, an interactive communications system linked to a computer that allows a user to select up to 5,000 "pages" of text and display them on his TV screen. Included will be news, restaurant guides, movie schedules and other services.

Another experiment is taking place in Coral Gables, Fla. Knight-Ridder and AT&T have completed a test in which some 600 residents were invited to do such things as grocery shopping and bill paying through their TV sets—with information sent over phone lines. A third test,



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between AT&T and CBS, is going on in New Jersey (*see* FORBES, *Jan. 4*).

What if these experiments succeed? Would that mean the future of the print media is less than bright? By no means. No major publisher envisions videotext as a complete substitute for his product. The moneymaking incentive simply isn't there. The old technology continues to attract big advertising dollars. In 1981 publishing ad revenues were up and now approach $30 billion annually.

The day the home video revolution becomes a reality—and can attract a significant portion of that figure—is years away at best. Some of the savviest publishers will sit on the sidelines until the dust clears. When they jump in, hardware costs will be far smaller as technology produces more efficient products at lower prices. They will also be able to see and avoid the mistakes of the early entrants.

But lurking in the background is AT&T. What if the telecommunications giant, which is hooked up to most American homes, is completely deregulated? If its lines were allowed to carry everything from classified ads to local news—all for a juicy fee, of course—publishers know they would really have something to worry about.

Beyond that there are other challenges. Will more powerful satellites combined with home "dish" antennas bypass cable? And what of the TV video game phenomenon? What will that do to available viewing time as the games become more sophisticated and more adult-oriented?

People, after all, have only so much time. Many will even continue to read; video has not really replaced Gutenberg. A lot of people who rushed into the new technology will be burned. A lot of others will make money.

TV producer Al Perlmutter ponders the situation, and then shakes his head. "A lot of people are flying blind," he says. "All anybody can do is try to dodge the rough spots and avoid a crash landing." ■

Words of the wires

Every industry has its own lingo, but cable TV terminology has been proliferating even faster than cable networks. To help get a clearer picture, here are some common buzzwords, with definitions.

Basic Cable Improved reception and increased availability of signals provided by direct connection of home TV sets to a wire.

Broadcasting Transmitting signals over the air to television sets or radios.

Cablecasting Programming originated by and distributed through cables, rather than over the air.

Community Antenna Television (CATV) Often used interchangeably with cable television, implies the earlier, less sophisticated systems usually limited to 12-channel capacity.

Direct Broadcast Satellite Orbiting relay station that delivers signals directly from ground transmitters to homes through the use of earth stations.

Dish Ground terminal that uses antennas to transmit, receive and process communications via satellite.

Earth Station Like "dish," but a larger terminal.

Franchise Contractual agreement between a cable operator and the governing municipal authority; a license to operate the wire.

Hardware Equipment involved in production, storage, distribution or reception of electronic signals.

Homes Passed Number of homes readily available to cable systems because feeder lines are in place.

Independent FCC licensed over-the-air TV station that has no exclusive affiliation with a network.

Interactive Cable Systems giving individual subscribers the ability to receive and send out signals.

Narrowcasting Programming of a highly specific nature geared to smaller audiences.

Operator Company that owns hardware over which video signals are sent.

Pay-per-view Billing system in which subscribers pay for one-time viewing of specific programs.

Pay TV System in which subscribers pay, usually once a month; most popular programs are movies.

Scrambler Device used to alter a signal electronically so that it can be viewed only on a receiver equipped with a decoder.

Software Another name for programming and programming materials.

Superstation A conventional television channel given national range by bouncing its signals off a satellite and then distributed locally by cable.

Teletext A one-way words-on-screen service with a limited data capacity.

Two-way Capacity Systems giving individual subscribers the ability to receive and send out signals.

Videotext A two-way words-on-screen service delivered via cable or telephone lines.

Source: Cablevision *magazine and* FORBES.

The corner hardware store fought off Sears in the Fifties and home center chains in the Seventies. Is it invincible?

Screws, bolts . . . and tighter competition

By Jeff Blyskal

JOHNSON'S PT. PLEASANT Hardware on the New Jersey shore is exactly what you would expect of a 100-year-old corner store. Every tool, screw, nut and bolt you need; worn oak floors and plenty of Johnsons asking if they can help you find something.

But walk down the aisles, past the bags of Scott's Turf Builder and the Stihl chain saws, and you're in for a surprise. In the back room an IBM System 34 computer quietly watches over billings, expenses, margins and $2.5 million annual sales. America's small family-owned hardware store, says 78-year-old Arthur Johnson, "is fairly sophisticated these days."

It better be. In a down market, competition among hardware stores, home centers, lumber yards and anyone else who sells home improvement products is intense. Even the corporate giants are not safe if poorly managed. Now in Chapter 11, Wickes Cos., with $2.9 billion in annual sales, is an example to all. "They may be the forerunner of a shakeout," says Frank Denny, president of W.R. Grace's $800 million-a-year home center division.

Recession isn't the only bogeyman. In order to appreciate the problems on the horizon, you must first understand the structure of the hardware business. It's a $43 billion industry that is fragmented and subject to surprisingly little outside analysis.

The market, of course, is more than just hammers and power drills. Hardware stores also sell TV sets, housewares and sporting goods. Home centers, a term basically meaning the larger hardware stores that hold half the market, will likely also have some lumber and extensive lawn and garden departments. Consumer-oriented building materials dealers concentrate on lumber, roofing and masonry products. Sears, Roebuck, meanwhile, sells a lot of Craftsman tools and other related items. Sears, along with Montgomery Ward, Penney, K mart and other general retailers, probably accounts for 25% of all "hardware" sales.

Ten years ago things started to happen. With inflation pushing up the cost of a plumber or electrician, the do-it-yourself market—a true post-World War II phenomenon—boomed even more strongly. It was growing 27% a year by the mid-Seventies—three times 1971 levels. Existing home center chains exploded, and others, like W.R. Grace in 1976, jumped in. By 1980 major chains owned 27% of the market.

All this added to the chaos of conventional hardware stores. How could the corner entrepreneur compete against hundred-million-dollar giants? Enter dealer-owned wholesale cooperatives, the biggest of which is Chicago's 7,000-store Cotter & Co., known to millions of homeowners as True Value. The dozen or so coops, which enjoyed limited popularity since the Fifties as an answer to Sears' rising prominence in the tool business, became essential to survival for the independents.

Historically, hardware stores bought from small local wholesalers. But joining together as nonprofit cooperatives allowed for volume discounts, created economies of scale in distribution and eliminated wholesaler's profit. "The coop reduced the cost of goods by 16%," says Roy Nyberg, a Sioux Falls, S.Dak. Ace Hardware dealer. "We gave the consumer 10% in lower prices and got an extra 6% profit."

Arthur Johnson in his Pt. Pleasant, N.J. hardware store
Computers and coops keep the small guy competitive.

Hardware's shadow industry

To compete with corporate chains, many hardware stores joined dealer-owned cooperatives like Cotter & Co. and Ace Hardware, which offer national brand identification and volume buying and distribution. Other outlets deal with wholesalers who formed their own cooperative merchandising groups. Today the little-known wholesalers and coops account for some $10 billion a year in retail sales.

Group (store identification)	1981 wholesale sales (millions)
Cotter & Co* (True Value)	$1,348
Liberty Distributors (Trustworthy, OK, S and T)	800
Ace Hardware*	694
Sentry Hardware	550
PRO Hardware (PRO, PRO Mart, Blue Grass Stores)	547
Hardware Wholesalers Inc* (HWI, Do it)	469
American Hardware Supply* (ServiStar)	412
Val-Test Distributors	350

*Dealer-owned cooperatives

Source: National Retail Hardware Association

True Value also had national recognition through extensive advertising, so members flocked in and sales grew an average 20% per year in the Seventies. Ace switched from being a wholesaler to a coop in 1974, and its sales grew in line with other coops. Over the Seventies, coops snatched a 20% chunk of the market from old-line wholesalers.

The battle, however, doesn't end there. Over the past ten years mergers have consolidated some 400 old-line wholesalers. There are now only 250, and many of the largest have formed their own quasi-cooperative merchandising groups. These give affiliated stores national identification under names like Sentry, PRO Mart and Trustworthy. Once again, bigger meant purchasing power. "Our disadvantage used to be that the coops could get 1% to 5% volume discounts," says Edwin Masback Jr., president of $600 million-a-year Sentry Hardware. "That may not sound like much, but in many cases that's the independent wholesaler's entire profit margin."

Adopting the enemy's strategy, in fact, has kept traditional wholesalers alive. "These guys, especially the strong regionals, are becoming more powerful and more competitive," says John Hammond, editor of *Hardware Retailing*. Unfortunately, however, most retailers have already signed with one of the major groups or cooperatives. "To get new dealers, you have to take them away from someone else," says PRO Hardware's Gary Cosgrave. "That's the way the game is played today."

Everyone wants to get bigger at once. To achieve greater economies of scale, Liberty Distributors, for example, expects to increase its base of 3,000 affiliated stores by 500 this year. Sentry is now big enough to take advantage of national television advertising. It will use that to help woo new dealers and fill gaps in various segments of its nationwide 4,500-store network.

Coops are going at it, too. Ace Hardware, which reportedly is paying sultry singer Suzanne Somers $700,000 to appear in its ads for three years, is moving farther into the Pacific Northwest and New England. Traditionally, New England has been True Value and American Hardware territory. American, meanwhile, is expanding into Ace's and True Value's Midwest and Southwest turf. Hardware Wholesalers Inc., big from Nebraska to Pennsylvania, will head into the East, Florida and the far West. And, since wholesalers and coops also serve as secondary suppliers—Art Johnson's True Value store is also served by Sentry—the battle will be not only for new dealers but for a bigger share of a store's purchases.

The sales pitches play on two major points. Nonprofit coops claim they lay in the merchandise as cheaply as possible. "Our average cost of doing business is 7%," says Lawrence Zehfuss of the American Hardware coop. "Wholesalers' average costs are 21%, plus 3% or 4% profit." Wholesalers point to the value of their service. "The coops' lowest-cost argument is a canard," says Masback. "Many of the expenses have merely been shifted to the dealer. Okay, they take the salesman out of the picture, but that means the dealer has to check his stock, put the orders in and shelve the merchandise, all of which takes up selling time."

All this fighting could spill over into the chain business, too, where expansion is getting harder and harder. "When the growth of the market started," explains Stanley Abramson, who heads Supermarkets General's 32-store Rickel Home Center division, "everyone built in anticipation of continued growth. There may be an overcapacity of stores, at least for now." Abramson should know. As Rickel added outlets and sales, its margins slipped from 6% in 1978 to 4% last year.

Grace's Denny agrees that overall growth has leveled off. But he thinks the smarter chains will continue to expand market share while the also-rans close up shop. "Instead of buying Gamble-Skogmo or going into financial services," he explains, "Wickes [which is heavily builder-oriented] might have been better off to develop its consumer business. Geographic diversity would have helped, too. The upper Midwest is the worst place to be concentrated today."

Even giant Sears is joining the fray. K mart, for example, is now stocking Stanley tools, stiff competition for Sears' private Craftsman line. The current overcapacity of hardware and home center outlets also means that Sears customers don't have to drive all the way to the shopping center to pick up a screwdriver. A study conducted for the National Hardware Retailing Association, in fact, projects that Sears' share of the do-it-yourself market will shrink three points, to 5.5%, by 1990.

Corporate nuts and bolts

Chain-owned home centers now have 27% of the hardware market, but independents still dominate the business. Below are the leading corporate competitors—excluding general retailers like Sears, Ward and Penney and companies that cater primarily to building contractors.

Company (chain names)	1981 home center sales (millions)
WR Grace (Handy Dan, Channel, Handy City)	$794
Evans Products (Grossman's, Moore's, Lindsley)	756
Payless Cashways	479
Pay 'n Save (Ernst)	275
Edison Bros (Handyman)	209
Interco (Central Hardware)	194
Supermarkets General (Rickel Home Centers)	180
Hechinger	170

Source: National Retail Hardware Association.; Standard & Poor's

"All the outside studies say that," says Bob Fuzak, Sears' senior buyer for hand tools. "I don't buy it. We've got a few things up our sleeve to keep the customers coming in, and we don't intend to let our business crumble."

Some hardware marketers are thinking about basic changes. With more small and multi-unit, multi-owner housing, Grace, for example, sees the opportunity for business in home energy and home maintenance. "We already sell 150 products that we can install for the customer," explains Denny.

One of the home center chains' biggest drawbacks, of course, has been a lack of the experienced, personal service that local hardware stores can provide. That service breeds customer loyalty. The chains, on the other hand, can afford to advertise more—and they don't have to consult several thousand diverse coop members to set fundamental marketing policy.

So the battle lines in the hardware business seem to be squarely drawn. It's price versus service. Through the growth of coops the little guys have managed to stay roughly even so far, but whether that can continue is a far tougher question. Think about it the next time you need a socket wrench or some drill bits. Where you decide to buy is at least one indicator of the future. ■

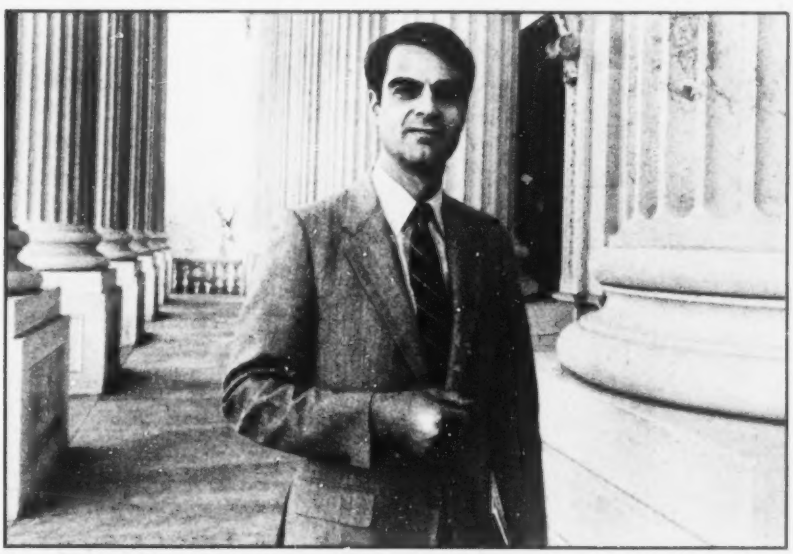
Even, perhaps, as you and I, Uncle Sam seems to have caught the slow-pay habit.

The check is in the mail

By Desiree French

EVER HEAR OF THE Slow Pay Coalition? A lesser-known lobbying group in Washington, its mission is to force the federal government to pay its bills on time.

SPC may have succeeded. This month Congress is expected to pass, and the President to sign, legislation that orders the government to pay its bills in 30 days, but with a 15-day grace period. Any federal agency that hasn't paid by the 46th day has to pay interest retroactive to the 31st day, with the rate based on five-year Treasury notes (14%-plus recently).



Slow Pay Coalition leader Kenton Pattie
Making a good citizen out of the federal government.

Moreover, Congress will not appropriate money for this interest. It has to come from agency funds. "Show me an agency that has had its budget cut this year, and I'll show you an agency [that] will eagerly comply [with the legislation]," says Kenton Pattie, leader of the coalition.

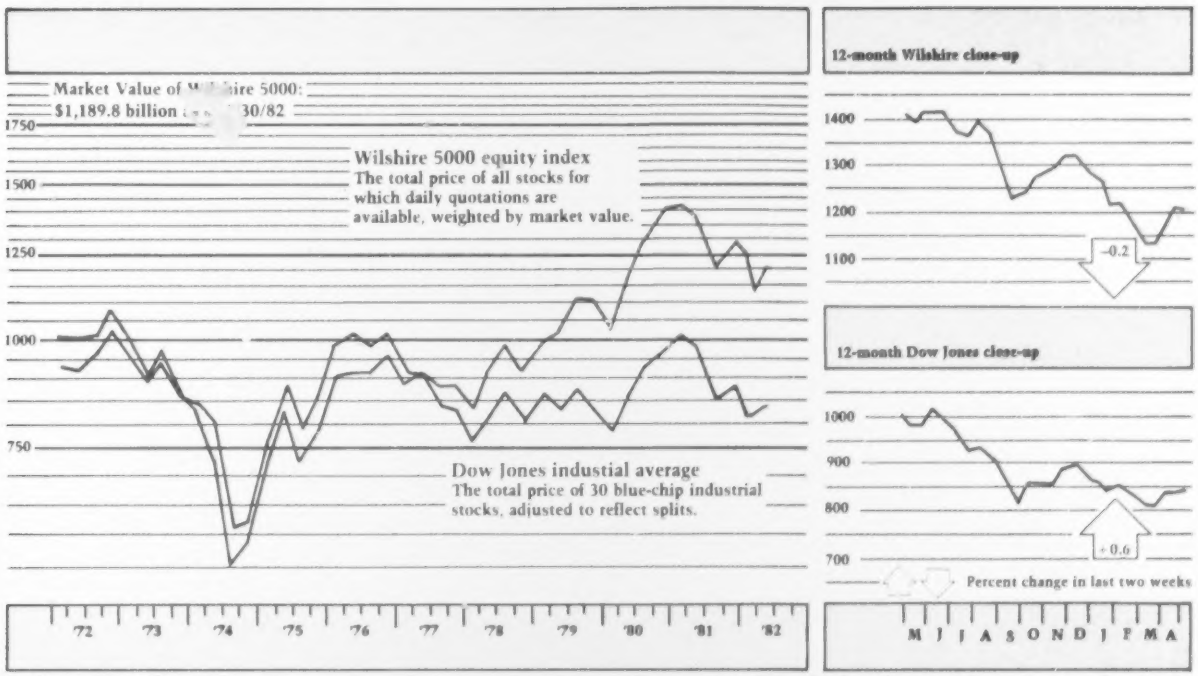
That doesn't mean the Navy will have to pay interest on a $3.5 billion aircraft carrier if it thinks it was overcharged. Contracts under dispute aren't covered by the 45-day rule. And, of course, the contractor must send the bill to the right office.

The check-is-in-the-mail syndrome means big money when it comes to Uncle Sam. The General Accounting Office reported in 1978 that the government paid 30% of its bills late. It took an average of 74 days for creditors to collect on that 30%, and the amount ran into billions of dollars. Following up last year, the GAO found little improvement. Result: The Senate passed the pay-on-time measure in December, and in March the House approved it, 396-to-0.

"In effect, the federal government is borrowing up to $11 billion per year from business by not paying its bills on time," says Hilton Davis, a vice president with the U.S. Chamber of Commerce. "And since 90% of the everyday commercial products bought by the federal government come from small dealers, distributors and manufacturers, the biggest burden falls on small businesses."

Businessmen began grumbling in earnest when interest rates pushed to well over 18% in 1980, a year before the Slow Pay Coalition was founded. It's made up of 40 associations, for the most part representing small businesses—which are glad to have the measure, but are not celebrating yet. "It's all good and well to pass this bill," says Irene Eichner, part owner of General Office Furniture Wholesalers, Inc., who says it took her over a year to collect $250,000 from the government. "But you are not dealing with private industry." ■

The Forbes/Wilshire 5000 Review



A time of testing. After six straight winning weeks, the 1982 rally finally faltered. Even so, the bulls aren't totally downtrodden: The 0.2% two-week setback of the Wilshire index still leaves the market more than 6% higher than it was before it began the spring rally. And many individual securities continue to perform well. Some of the best gains, for example, are coming from NASDAQ stocks, which advanced 1.3%. The Dow industrials also bucked the losing trend with a two-week gain of 0.6%. But the rest of the Big Board issues couldn't keep up with the blue-chip Dow. The NYSE index fell 0.3%. Amex stocks, with a 1.3% setback, also contributed to the Wilshire's retreat.

The scorecard for the last four weeks indicates that high-volatility and high-growth stocks have outperformed the overall market by a wide margin. That's good news because a major market rally may depend on all-star performance from these speculative, glamour-oriented issues. While it has been an encouraging few weeks, recent losses have narrowed some of the performance gaps. At the moment, most Wall Streeters would gladly settle for a return to the slow but steady progress the market made this spring. On the other hand, there is legitimate concern that the end of the recent winning streak could cause the market to choke. That could set off a new wave of profit-taking and put the bears back in control.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.6	1.2	1.3	2.1	3.4
in last 52 weeks	-13.7	-14.8	-12.6	-24.1	-14.8

Stock performance based on five key investor yardsticks

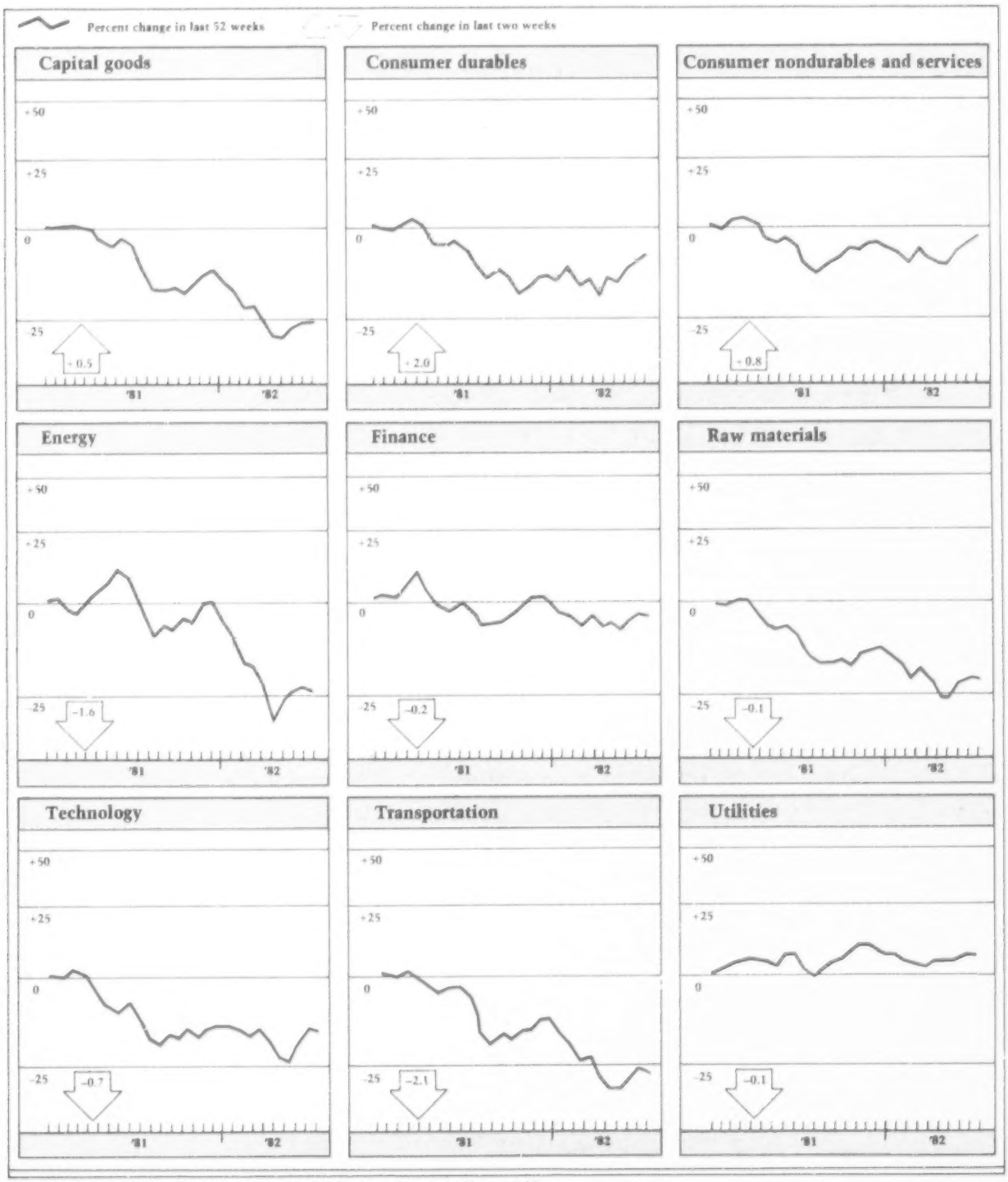
Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.8	2.2	3.6	3.7	2.2	4.5	5.1	2.9	2.6	1.9
in last 52 weeks	-12.5	5.9	-22.6	-3.0	3.8	-5.8	-10.2	-0.8	-12.1	-7.4

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 4/30/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Strength in weakness. Six out of nine sectors took their lumps with the rest of the market. Hardest hit was transportation, which suffered a 2.1% setback. Energy stocks declined 1.6%. In the latest two-week period technology issues were off by 0.7% while raw materials, utilities and finance experienced minor setbacks. Still, on a four-week basis, technology stocks lead the eight other sectors with a 3.7% gain.

Over the last two weeks, however, consumer stocks bucked the tide. Consumer durables outperformed all sectors and the major market indicators with a 2.0% gain. Consumer nondurables and services made a modest 0.8% advance. The third sector in the black, capital goods, gained 0.5%. Some investors continue to bank on a consumer-led recovery. This may be blind faith—or they may see something beyond the conventional economic indicators.



Note: All data for periods ending 4/30/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Statistical Spotlight

Mention some bad news, and institutional investors can bomb a stock in one day. Then why do so many companies actively court the professionals?

Love—and hate—on Wall Street

By Howard Rudnitsky

EARLIER THIS YEAR nearly every trading day some technology stock was zapped by finicky institutional investors. Datapoint, for example, fell from 49⅛ to 41 in one day, after announcing it anticipated lower than expected second-quarter earnings. Similar gloom sank Data General, Digital Equipment, EG&G and Western Co. of North America.

Then the bad-news bears hit Federal Express, Sterling Drug, Syntex and even blue chips like Caterpillar Tractor and Deere. "The way some portfolio managers were knocking down stocks for a while, it looked like the go-go days of the 1960s," says Bernard O'Keefe, chief executive of Boston-based EG&G, who saw his stock bounce up again.

What the big boys like . . . now

The stocks of these 36 companies are popular with institutional investors. That often leads to high price/earnings multiples. But there is risk, too: If the pros rush for the door all at once, prices can collapse.

Company	Institutional ownership	5-year EPS growth	Recent price	52-week price range	Revenue (millions)	—Latest 12-month— EPS	P/E	Yield
AMP	86%	21%	58¼	62½–43½	$1,234	$3.75	16	2.4%
Northwest Airlines	78	–5	30½	38¾–22¼	1,854	0.48	NM	2.6
Digital Equipment	76	25	81⅞	113¼–71⅝	3,198	7.53	11	—
Gannett	76	15	35½	46 –29½	1,367	3.17	11	4.9
Consolidated Freightways	74	2	38	45 –32	1,144	9.46	4	4.0
Nalco Chemical	72	13	45	58¼–41	667	4.04	11	5.0
American Broadcasting	71	14	35⅛	38¼–26¼	2,444	5.13	7	4.6
ACF Industries	70	5	36⅝	49½–31½	948	5.36	7	7.5
Associated Dry Goods	70	7	33⅛	33⅞–23⅝	2,751	4.17	8	5.4
Capital Cities Comm	70	19	76	80½–64⅜	574	6.12	12	0.3
Automatic Data Process	69	18	26⅝	31¼–23	558	1.66	16	1.7
E-Systems	67	0	29¼	29⅝–19¼	572	1.67	18	2.1
Federal Express	67	58	54⅛	72¼–44¼	589	3.65	15	—
Datapoint	66	34	21¼	66 –19⅝	396	2.37	9	—
Diebold	66	53	60½	60¾–33¼	386	3.37	18	1.3
McDonald's	66	19	68¼	72⅞–56¾	2,516	6.54	10	1.5
Bausch & Lomb	65	20	45⅝	58½–35¼	533	0.82	NM	3.4
Betz Laboratories	65	21	26¼	33¼–23¾	253	1.83	14	2.9
Monsanto	65	1	65½	87½–59½	6,948	10.40	6	5.8
Raychem	65	28	56	72 –48½	525	4.04	14	0.8
Ryder System	65	16	30⅝	40½–23½	1,946	3.84	8	3.6
Denny's	64	6	23	25 –14¾	849	2.38	10	2.8
Texas Instruments	64	–4	88⅛	124 –70½	4,206	4.62	19	2.3
Air Products & Chem	63	17	35⅝	46⅞–31	1,570	4.50	8	2.3
American Airlines	63	–32	14	21⅛– 9¼	4,109	–1.40	NM	—
Halliburton	63	15	34⅛	70½–32	8,508	5.72	6	4.7
Honeywell	63	12	67	101½–62¼	5,351	11.46	6	5.1
Medtronic	63	28	40⅝	43 –30¾	314	2.73	15	1.4
Philip Morris	63	18	50½	55⅛–44	8,307	5.41	9	4.8
Anheuser-Busch	62	28	47¼	48 –33¾	3,847	4.79	10	2.7
General Mills	62	15	40	41 –32⅜	4,852	4.39	9	4.1
International Paper	62	3	36⅜	49½–32¾	4,983	8.31	4	6.6
RH Macy	62	22	33¼	34⅞–25	2,657	3.75	9	3.0
McDermott	62	–13	23⅛	41⅞–21¾	3,600	4.51	5	7.8
Whirlpool	62	6	29	30½–22	2,437	3.46	8	5.5
Xerox	62	10	38⅝	64 –34½	8,691	7.08	5	7.8

NM: not meaningful.

Sources: *Standard & Poor's, Media General's* Market Data Graphics

What's involved is Wall Street's perpetual love-hate relationship. On one hand, companies encourage professional investors to buy their shares. After all, institutions account for an estimated 70% of trading volume, and courting them involves dealing with a relatively small number of decision makers. But then there's the downside: When pros sour on a stock, they often all want out at once; individuals tend to be far less fickle.

Companies gain favor with institutions for several reasons, but mainly the attractions are strong earnings growth over time, coupled with an aura of glamour. In the late 1960s, for example, Tandy Corp. was "hot," when the pros saw it as an audio play and later as a citizens band radio play. Then, around 1977 CB collapsed—and so did Tandy's stock, but not its earnings. Now, however, the company is back in favor because of its personal computers, but it isn't wooing Wall Street actively. "The institutions use investment screens, and if your results stick out they'll buy your stock," says Garland Asher, director of financial planning.

It isn't so automatic for smaller companies. Diebold, for example, is one-fifth Tandy's size and has long courted institutional investors. "Face it," says Chairman Robert Koontz, "without them you're not going to get a decent P/E ratio." It works for him. His company, which makes a popular automated teller machine for banks, has 72% institutional ownership and a P/E of 18.

Companies also like institutional investors because they make it easier to arrange new financing. Says one executive, "Management hires an investment banker to do the deal quickly. If the company already has institutional investors, the bankers will go to them because that's easier than selling to individuals."

Still, having a heavy institutional presence has its headaches as well. Professionals can sell for reasons having little to do with the company's results. Explains O'Keefe, "One of the problems with many institutions is that they compare their performance to things like a Becker scorecard. As long as they did as well as the other investment advisers, that's O.K."

Some companies, however, have managed to keep the pros out—and few do it as aggressively as Florida-based Winn-Dixie. Per-share earnings and dividends at this supermarket chain have almost doubled since 1975, and return on equity averages about 20%, but institutions today own only 8% of its shares. The company, which is 40% closely held, pays dividends monthly and has 42,000 stockholders—many of whom own fewer than 100 shares. "They're like a fishhook," Vice President Robert Davis says of Wall Street professionals. "You don't feel it much when they come in, but when they come back out it hurts. They're too quarter-by-quarter oriented, and they're insatiable in their demands for information."

These days, some big companies have figured ways to moderate institutional holdings. One approach is to tender for stock when the market is down, at a price premium of 10% or 15%. Tandy did that in 1977, and Metromedia and Teledyne have used a similar technique more recently. "The institutions tender their shares because if they don't they'll have to justify it to an investment committee," says Asher. "If the price goes down later, someone is on the carpet."

The accompanying tables list stocks that are now institutional favorites—as well as some that aren't. Notice it is rare for a company to sport a high P/E ratio without winning the favor of the pros, but the danger that they will run for the exit presents downside risk. On the other hand, stocks that the big boys don't like might benefit someday from a big runup. The pros can panic to buy as readily as they panic to sell. ■

No pros . . . may be good news

The 21 stocks on this list rank near the bottom in terms of institutional ownership of their shares. Sometimes professionals stay away because of poor earnings growth, sometimes because of heavy family ownership and sometimes just to avoid industries they don't like. There is a bright spot in all this, however. If the big boys suddenly get sweet on one of these companies, its shares can go up just as quickly as those of a former favorite can fall.

Company	Institutional ownership	5-year EPS growth	Recent price	52-week price range	Revenue (millions)	Latest 12-month EPS	Latest 12-month P/E	Yield
American Brands	19%	26%	42¼	34 –46	$ 6,538	$6.68	7	8.3%
Asarco	18	41	21¼	17¼–44¼	1,532	1.54	14	3.8
Ashland Oil	9	–4	22⅛	20½–39¾	9,262	3.07	7	10.9
Baldwin-United	18	22	68⅛	36¾–71	2,492	7.73	9	2.4
Caesars World	2	57	9⅝	6⅛–13⅜	626	1.20	8	—
Chrysler	9	NM	5	3⅛– 7⅛	10,822	–7.25	NM	—
ConAgra	14	18	22⅛	16 –25	1,377	2.36	10	3.8
Grumman	8	–11	26	21 –39¾	1,916	1.45	14	7.0
G Heileman Brewing	11	28	23⅞	21 –32⅝	807	3.05	8	3.4
Insilco	14	12	15¼	14⅛–21¾	685	2.20	7	6.6
IU International	18	36	13	11¼–19⅛	2,323	2.77	5	8.5
Maryland Cup	18	15	34⅛	31⅝–43¾	647	4.55	8	2.6
Occidental Petroleum	18	71	19¾	18⅝–31¼	14,708	7.77	3	12.7
Ogden	18	10	26⅞	23¼–39⅞	2,324	4.86	6	6.7
Pan Am World Airways	1	–60	3¾	2½– 6	3,793	–0.26	NM	—
SCM	13	6	21½	19⅝–31⅝	1,938	3.93	5	9.3
Standard Oil Ohio	19	65	33⅝	29⅛–54⅛	13,457	7.92	4	7.1
Tesoro Petroleum	10	91	20⅜	13½–24½	3,035	4.75	4	1.9
Universal Leaf Tobacco	17	15	25¾	21¾–27⅝	988	3.76	7	6.4
Winn-Dixie Stores	8	11	34¼	28¼–37¼	6,200	3.92	9	6.2
Zenith Radio	17	–4	15⅛	10¼–21½	1,275	0.82	18	2.0

NM: not meaningful. *Sources: Standard & Poor's; Media General's* Market Data Graphics